



GCE

Economics

H460/02: Macroeconomics

Advanced GCE

Mark Scheme for November 2020

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Tick
	Cross
	Confused
	Benefit of doubt
	AO1 – Knowledge and understanding
	AO2 – Apply knowledge and understanding
	AO3 - Analyse
	AO4 - Evaluation
	Omission
	Not answered question
	Noted but no credit given
	Too vague
	Own figure rule
	Repetition

Subject-specific Marking Instructions

INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

Levels of response / Level descriptors	Knowledge and understanding/ Application	Analysis	Evaluation
Strong	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
Good		An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
Reasonable	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
Limited	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

Question		Answer	Marks	Guidance
1	(a)	<p>Using information from the stimulus material, identify two causes of globalisation.</p> <p>Lower costs of transport (1). Advances in communications/technology (1).</p>	<p>2 (AO1 x 2)</p>	<p>Annotate with </p> <p>Up to 2 marks for causes from the stimulus</p>
1	(b)	<p>Using Fig.1, explain the relationship between GDP per head and life expectancy.</p> <p>AO1: Higher GDP per head would be likely to mean better health care/better education/better housing/better nutrition (1) AO2: Largely positive/expected relationship (1). Any of the four countries identified with the highest GDP per head have the longest life expectancy (1) Any of the four countries with the lowest GDP per head have the lowest life expectancy (1). Some exceptions in order e.g. USA has the highest GDP per head but only the 4th longest life expectancy/Egypt has a higher GDP per head than Bangladesh but lower life expectancy (1).</p>	<p>4 (AO1 x 1 AO2 x 3)</p>	<p>Annotate with </p> <p>Figure 1 must be used</p>
1	(c)	<p>Using Fig.2, explain the difference between short run and long run economic growth.</p> <p>Short run economic growth is an increase in actual growth / higher output resulting from greater use of existing resources – w → x (1). In contrast, long run economic growth is an increase in productive capacity – YY → ZZ. (1)</p>	<p>2 (AO1 x 1 AO2 x 1)</p>	<p>Annotate with </p> <p>Figure 2 must be used</p>

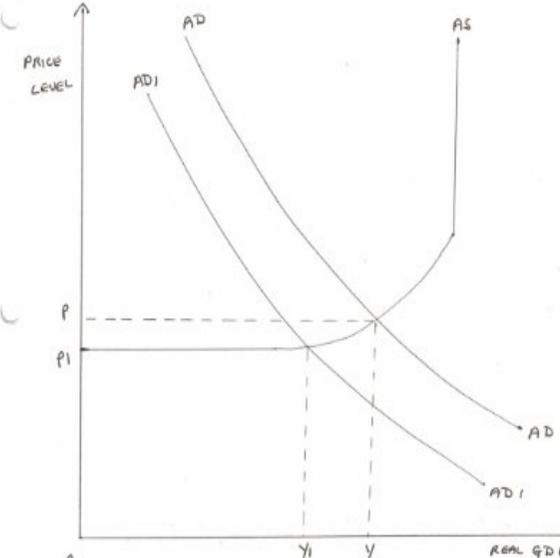
1	(d)	<p>Using information from Fig.3, explain whether Bangladesh had a budget deficit or a budget surplus in 2017.</p> <p>Budget surplus (1) tax revenue £25 m exceeded government spending £13 m (1).</p>	<p>2 (AO2 x 2)</p>	<p>Annotate with </p>
1	(e)	<p>Using information from the stimulus material, evaluate whether a cut in corporate tax rates in Bangladesh would benefit the UK economy.</p> <p>Level 2 (5–8 marks) Good knowledge and understanding of corporate tax.</p> <p>Good – strong analysis of the ways in which a cut in corporate tax rates in Bangladesh may affect the UK economy. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p>Reasonable – strong evaluation of whether a cut in corporate tax rates in Bangladesh will benefit the UK economy, considering the impact on the UK’s trade position, underpinned by appropriate theoretical analysis. Good evaluation will weigh up the reasons why it might and the reasons why it might not but without reaching a supported judgement. Strong evaluation should include a supported judgement.</p>	<p>8 (AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3)</p>	<p>For a mark at the top of each level evidence must be provided from the stimulus material and / or the candidate’s own knowledge.</p> <p><i>Indicative content</i></p> <p>A cut in corporate tax rates may stimulate investment and economic growth. UK multinationals with branches in Bangladesh may gain higher profits to send back to the UK. This will increase primary income coming into the current account.</p> <p>There is also the possibility that the UK may benefit from any growth of the Bangladeshi economy as it may be able to export more goods and services. Indeed, Bangladesh’s economic growth. The growth of the Bangladeshi economy may reduce the need for the UK government to provide it with overseas aid. This, however, is more likely to change the destination of where aid goes rather than reduce the aid budget. This is because the UK government is committed to giving 0.7% of its GDP in aid.</p> <p>Some UK firms may be encouraged to relocate to Bangladesh to take advantage of the lower corporate tax rates. The rates, however, may still be higher than those in the UK and may not offset other causes of higher production costs such as poor infrastructure. It may be the case that a cut in corporate tax rates may not stimulate growth. Lower tax revenue may mean that the government will spend less on education which could reduce the country’s productivity. The UK</p>

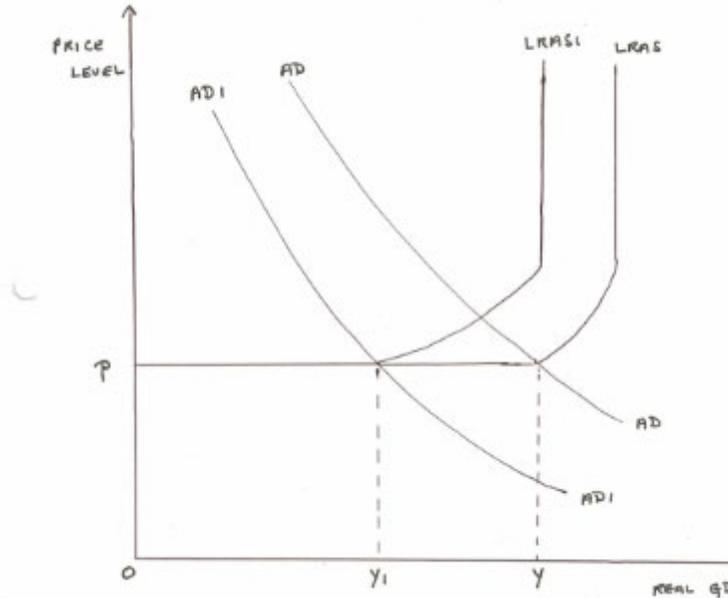
		<p>Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of corporate tax.</p> <p>Limited – reasonable analysis of the ways in which a cut in corporate tax rates in Bangladesh may affect the UK economy. Limited analysis will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Reasonable analysis will largely be in the form of single links. There address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p>Limited evaluation of whether a cut in corporate tax rates in Bangladesh will benefit the UK economy in the form of an unsupported statement or no evaluation.</p> <p>0 marks No response worthy of credit.</p> <p>Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>	<p>economy may not gain much from the growth of the Bangladeshi economy. Bangladesh is not currently a significant trading partner of the UK. Other countries, such as China, may benefit more. The UK has a trade deficit with Bangladesh. With higher investment, Bangladesh’s products may become more competitive. Bangladesh may not only sell more to the UK but it may out-compete the UK in some of the UK’s export markets.</p> <p>There is also the possibility that the UK may benefit from any growth of the Bangladeshi economy as it may be able to export more goods and services. Indeed, Bangladesh’s economic growth may lead to higher consumer spending. Some of this may go on imports from other countries. For instance, UK based car firms may sell more to Bangladesh if they are price and quality competitive. As GDP per head rises, spending on services increases. The UK has a comparative advantage in a range of financial services including financial services and education.</p> <p>Whether the UK will benefit from a cut in Bangladeshi corporate tax rates will depend on whether such a cut will stimulate economic growth in Bangladesh and how a more prosperous Bangladesh would affect the UK’s current account. At present the effect may not be very great as Bangladesh is not a major trading partner of the UK.</p>
		<p>Descriptor</p> <p>Consistently meets the criteria for this level</p> <p>Meets the criteria but with some slight inconsistency</p> <p>Just enough achievement on balance for this level</p> <p>On the borderline of this level and the one below</p>	<p>Award mark</p> <p>At top of level</p> <p>Above middle and either below top of level or at middle of level (depending on number of marks available)</p> <p>Above bottom and either below middle or at middle of level (depending on number of marks available)</p> <p>At bottom of level</p>

Question			Answer	Marks	Guidance
1	(f)	*	<p>Using information from the stimulus material, evaluate whether the gap in GDP per head between low-income and high-income countries will narrow in the future.</p> <p>Level 3 (9–12 marks) Good knowledge and understanding of what causes a gap between low-income and high-income countries linked to influences on economic growth.</p> <p>Good – strong analysis of what may affect the gap between low-income and high-income countries in the future.</p> <p>Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p>Good – strong evaluation of whether the gap between low-income and high-income countries will fall in the future, weighing both why it might and why it might not. Strong evaluation should include a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 2 (5–8 marks) Good knowledge and understanding of what causes a gap</p>	<p>12</p> <p>(AO1 x 1 AO2 x 1 AO3 x 5 AO4 x 5)</p>	<p>For a mark at the top of each level evidence must be provided from the stimulus material and / or the candidate's own knowledge.</p> <p><i>Indicative content</i></p> <p>If low-income countries continue to have higher rates of economic growth than high-income countries, the gap between the two groups will narrow. Workers and entrepreneurs in low-income countries, unsatisfied with their living standards, may have a greater incentive to work hard and innovate. In contrast, some people in high-income countries may lack drive and may seek to have more hours of leisure.</p> <p>Low-income countries may also be able to copy advances in technology in high-income countries. They may also be able to copy production methods used by multinational companies located in their countries. More advanced technology and better methods of technology may lower costs of production and increase aggregate supply.</p> <p>Moving workers from primary to secondary and tertiary sectors and reducing under-utilisation of resources can also increase average incomes in low-income countries. However, high-income countries have greater economic power and may not trade on equal terms with low-income countries. If the tariffs on the exports of high-income countries are lowered more than those on low-income countries, the gap may increase. The development of greater trade links between high-income countries, including forming trade blocs, may exclude low-income countries.</p> <p>Low-income countries may have low wages but this does not necessarily mean that they have low average</p>

	<p>between low-income and high-income countries linked to influences on economic growth.</p> <p>Reasonable analysis of what may affect the gap between low-income and high-income countries in the future. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p>Reasonable evaluation of whether the gap between low-income and high-income countries will fall in the future, considering both why it might and why it might not.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 1 (1–4 marks)</p> <p>Limited – reasonable knowledge and understanding of what causes a gap between low-income and high-income countries linked to influences on economic growth.</p> <p>Limited analysis of what may affect the gap between low-income and high-income countries in the future. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.</p> <p>Limited evaluation of whether the gap between low-income and high-income will fall in the future in the form of an unsupported statement or no evaluation.</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the</i></p>	<p>costs of production. They may have low productivity, possibly because of low spending on education. If this is the case, multinational companies will not be attracted to the countries and some of their firms may move their production to high-income countries.</p> <p>Some low-income countries also have high average costs of production because of poor infrastructure. Poor and unreliable transport, for instance, can reduce the price and quality competitiveness of the countries' firms. A high birth rate in some African countries means that resources, that could be devoted to promoting economic growth, have to be devoted to catering to the needs of the new young people. For instance, instead of spending on research and development, a government may have to spend on new primary schools.</p> <p>Lack of political and economic stability may discourage investment and so lower aggregate demand and aggregate supply.</p> <p>Potential judgement</p> <p>Whether low income countries will transform into high-income countries will depend on a number of factors. These include whether the low-income countries gain fair access to international trade, whether the countries allocate their resources efficiently and whether the governments operate effective economic policies. Some emerging economies, including China, have shown it is possible to narrow the gap.</p>
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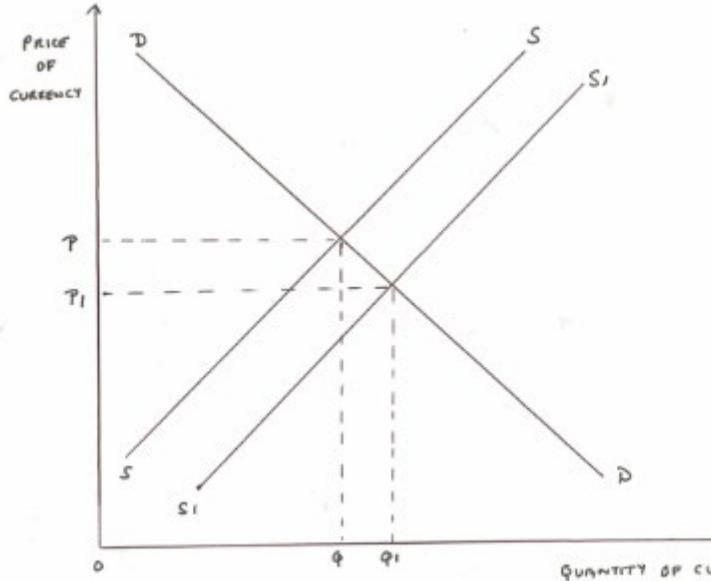
		<p><i>relationship to the evidence may not be clear.</i></p> <p>0 marks No response worthy of credit.</p> <p>Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		
		Descriptor	Award mark	
		Consistently meets the criteria for this level	At top of level	
		Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	
		Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	
		On the borderline of this level and the one below	At bottom of level	

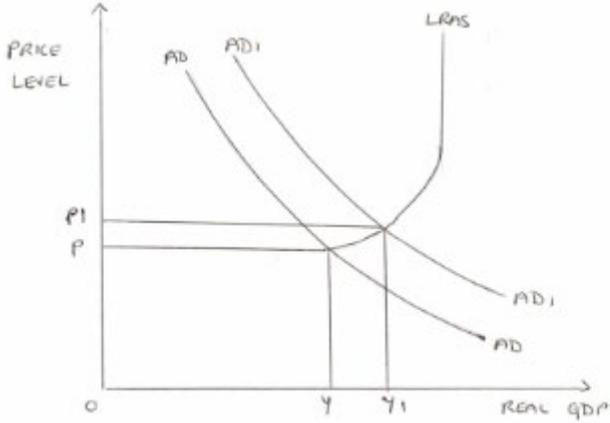
Question	Answer	Marks	Guidance
2 *	<p>Between 2017 and 2018, households in Denmark's saved more. Household saving as a percentage of disposable income rose from 5.6 to 5.9. Evaluate, with the use of an appropriate diagram(s), whether an increase in the amount households save will harm an economy.</p> <p>Level 5 (21–25 marks) Good -Strong knowledge and understanding of the nature of saving and macroeconomic indicators.</p> <p>Strong analysis of how an increase in the amount households save may affect an economy. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p>Strong evaluation of whether an increase in household saving will harm an economy, weighing up both why they might and why they might not and reaching a supported judgement.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p>Level 4 (16–20 marks) Good knowledge and understanding of the nature of saving and macroeconomic indicators.</p> <p>Strong analysis of how an increase in the amount households save may affect an economy. Strong analysis will have consistently well-developed links through a</p>	<p>25</p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p><i>Indicative content</i></p> <p>If households save more, they may be spending less. A reduction in consumer spending may discourage investment. This is because firms will expect to sell less and earn lower profits. As a result their incentive and ability to spend on capital goods will be reduced. Lower consumer expenditure and investment will reduce aggregate demand. If the economy is operating at less than full capacity, a decrease in aggregate demand will reduce output. The diagram shows real GDP falling from Y to Y1.</p> 

	<p>coherent chain of reasoning which addresses the question. Any diagrams must be integral to the analysis.</p> <p>Good evaluation of whether an increase in household saving will harm an economy and will weigh up both sides but without reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p>Level 3 (11–15 marks) Good knowledge and understanding of the nature of saving and macroeconomic indicators.</p> <p>Good analysis of how an increase in the amount households save may affect an economy. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p>Reasonable evaluation of whether an increase in household saving will harm an economy, considering both why it might and why it might not.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 2 (6–10 marks) Good knowledge and understanding of the nature of saving and macroeconomic indicators.</p> <p>Reasonable analysis of how an increase in the amount</p>	<p>If firms are producing less goods and services, they may need fewer workers. This can result in a rise in cyclical unemployment. Some of the workers who lose their jobs may lose their skills and confidence and so may find it difficult to find other jobs when economic activity picks up.</p> <p>A reduction in investment would also reduce productive capacity. This again could result in a decrease in output as shown in the diagram. In this case both aggregate demand and aggregate supply decrease.</p>  <p>An increase in saving may, however, benefit an economy. If the economy is operating at or close to full</p>
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	<p>households save may affect an economy. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p>Reasonable evaluation of whether an increase in household saving will harm an economy, considering both why it might and why it might not.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p>Level 1 (1–5 marks)</p> <p>Reasonable knowledge and understanding of the nature of saving and macroeconomic indicators.</p> <p>Limited or no analysis of how an increase in the amount households save may affect an economy. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p> <p>Limited evaluation of whether an increase in household saving will harm an economy, in the form of an unsupported statement or no evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p>0 marks No response worthy of credit.</p>	<p>capacity, a reduction in consumer spending may reduce inflationary pressure.</p> <p>A reduction in spending by households may also improve the current account position. Households may reduce spending on imports. It is also possible that domestic firms, faced with lower domestic demand, may put more effort into finding export markets.</p> <p>More saving may increase the funds available for investment. Banks may receive more deposits, which can be used as the basis for loans to firms to spend on capital goods. More available loanable funds may also lower the rate of interest. This will make it cheaper for firms to borrow. This could encourage them to borrow more, if they expect consumer expenditure to rise in the future.</p> <p>In addition, households may both save and spend more, if their incomes are rising. In this case, firms will have both the incentive to invest access to the funds to invest.</p> <p>Whether an increase in the amount households save will harm an economy will depend on the initial productive capacity, the initial current account position, the key influences on investment and whether income is increasing. It may be more harmful if the rise in saving is accompanied by a fall in consumer expenditure and the economy is initially operating with spare capacity. If a country already has a current account surplus, the need to reduce imports will be less than if it had a current account deficit. More saving may increase the availability and reduce the cost of loanable funds but if consumers are buying less of their products, firms may not want to invest.</p>
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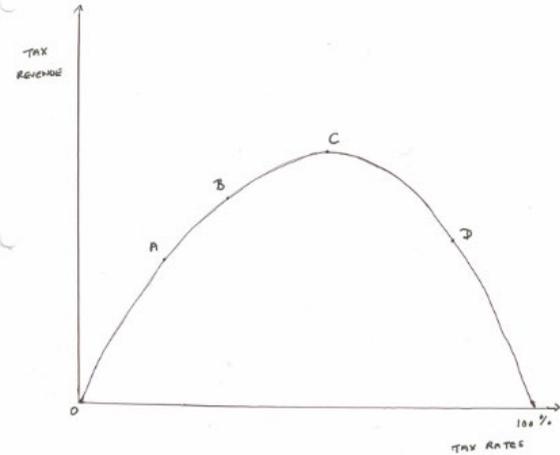
		Descriptor		Award mark
		Consistently meets the criteria for this level		At top of level
		Meets the criteria but with some slight inconsistency		Above middle and either below top of level or at middle of level (depending on number of marks available)
		Just enough achievement on balance for this level		Above bottom and either below middle or at middle of level (depending on number of marks available)
		On the borderline of this level and the one below		At bottom of level

Question	Answer	Marks	Guidance
3 *	<p>In 2018, the US President accused China and Russia of lowering the value of their currencies to artificially low levels.</p> <p>Evaluate, with the use of an appropriate diagram(s), whether a central bank's decision to reduce the exchange rate to an artificially low level will benefit its economy.</p> <p>Level 5 (21–25 marks) Good -Strong knowledge and understanding of what is meant by a fall in the exchange rate.</p> <p>Strong analysis of how a fall in the exchange rate to an artificially low level will affect an economy. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p>Strong evaluation of whether a fall in the exchange rate to an artificially low level will benefit an economy, weighing up both why it might and why it might not and reaching a supported judgement.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p>Level 4 (16–20 marks) Good knowledge and understanding of what is meant by a fall in the exchange rate.</p> <p>Strong analysis of how a fall in the exchange rate to an</p>	<p>25</p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p><i>Indicative content</i></p> <p>An artificially low exchange rate is one below the free market equilibrium price. A central bank could achieve this by either selling the country's currency and/or reducing the rate of interest to discourage financial investors from purchasing the currency. The diagram shows the free market equilibrium price being P. An increase in the supply of the currency reduces the price to P_x.</p>  <p>A fall in the exchange rate can give a country a price competitive advantage abroad and at home. It will lower</p>

	<p>artificially low level will affect an economy. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p>Good evaluation of whether a fall in the exchange rate to an artificially low level will benefit an economy, weighing up both why it might and why it might not without reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p>Level 3 (11–15 marks) Good knowledge and understanding of what is meant by a fall in the exchange rate.</p> <p>Good analysis of how a fall in the exchange rate to an artificially low level will affect an economy. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p>Reasonable evaluation of whether a fall in the exchange rate to an artificially low level will benefit an economy, considering both sides.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p>	<p>the price of exports, in terms of foreign currencies, and raise the price of imports, in the domestic currency. If demand for exports and imports is elastic, with the Marshall-Lerner condition being met, the current account position will be improved. A rise in net exports may lead to higher output and employment. As a result, economic growth may occur and cyclical unemployment may fall.</p> <p>An artificially low exchange rate, however, may create inflationary pressure in a number of ways. One is that to achieve and maintain it, the higher supply of the currency may result in a rise in the money supply in the country. This may increase aggregate demand. There may be higher aggregate demand if the central bank reduces the rate of interest, to lower the price of the currency. Any resulting increase in net exports will also raise aggregate demand as net exports are a component of aggregate demand. Higher aggregate demand may result in demand-pull inflation if the economy is operating at or close to full capacity.</p> 
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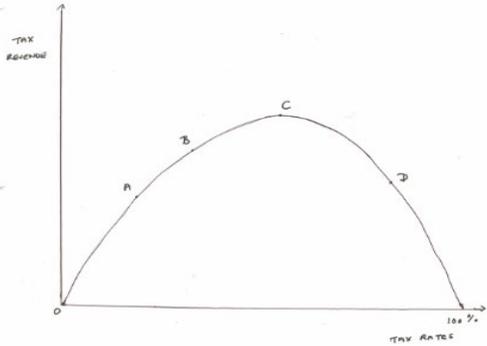
	<p>Level 2 (6–10 marks) Good knowledge and understanding of what is meant by a fall in the exchange rate.</p> <p>Reasonable analysis of how a fall in the exchange rate to an artificially low level will affect an economy. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p>Reasonable evaluation of whether a fall in the exchange rate will benefit an economy, considering both sides.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p>Level 1 (1–5 marks) Reasonable knowledge and understanding of what is meant by a fall in the exchange rate.</p> <p>Limited or no analysis of how a fall in the exchange rate to an artificially low level will affect an economy. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagrams(s) may not be present or are incorrectly labelled.</p> <p>Limited evaluation of whether a fall in the exchange rate will benefit an economy in the form of an unsupported statement or no evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p>	<p>Cost-push inflation may occur as a result of higher import prices. A rise in the price of imported raw materials and capital goods, which cannot be replaced by domestic raw materials and capital goods. Will directly increase the costs of production. Higher import prices may also reduce the pressure on domestic firms and the government to keep inflation low.</p> <p>The country's trading partners may regard lowering the exchange rate to gain a competitive advantage to be unfair competition. As a result, they may impose trade restrictions on the country, exports.</p> <p>While reducing the exchange rate may bring advantages in the short run, it may be difficult to keep the exchange rate artificially low for long and may result in inflationary pressure. The effects of the reduction in the exchange rate will be influenced by the price elasticity of demand for exports and imports, the level of capacity in the economy and how other countries react.</p>
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			0 marks No response worthy of credit.		
			Descriptor		Award mark
			Consistently meets the criteria for this level		At top of level
			Meets the criteria but with some slight inconsistency		Above middle and either below top of level or at middle of level (depending on number of marks available)
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			On the borderline of this level and the one below		At bottom of level

Question	Answer	Marks	Guidance
4 *	<p>In recent years, the UK government has cut both corporation and income tax rates. The 2013 cut in the top rate of income tax from 50% to 45% has been estimated to have reduced government tax revenue by £8.6bn between 2013/14 and 2017/18.</p> <p>Evaluate whether a cut in direct tax rates will always reduce tax revenue.</p> <p>Level 5 (21–25 marks) Good -Strong knowledge and understanding of direct tax rates. Strong analysis of the relationship between tax rates and tax revenue. It will consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p>Strong evaluation of whether a cut in direct tax rates will always reduce tax revenue, weighing up both why it might and why it might not and reaching a supported judgement.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p>Level 4 (16–20 marks) Good knowledge and understanding of direct tax rates.</p> <p>Strong analysis of the relationship between tax rates and tax revenue. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis.</p>	<p>25</p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p><i>Indicative content</i></p> <p>The Laffer curve suggests there is an optimum tax rate. The diagram shows that zero tax revenue is earned if tax rates are 0% or 100%. The tax revenue varies between these two rates, peaking at a rate of C.</p>  <p>The Laffer curve suggests to policy makers that raising the tax rate from a low rate of A to a rate of B would raise tax revenue. The curve is probably even better known for the suggestion that a cut from a high tax rate such as D towards the optimum tax rate would raise tax revenue. It might at first seem strange that charging a lower tax rate may increase tax revenue. There are, however, a number of reasons why this may occur. One is that it will increase the incentive to work, invest and save. For instance, some of the unemployed may be more willing</p>

	<p>Any diagrams must be integral to the analysis.</p> <p>Good evaluation of whether a cut in direct tax rates will always reduce tax revenue, weighing up both why it might and why it might not, weighing up both sides but without reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p>Level 3 (11–15 marks) Good knowledge and understanding of direct tax rates.</p> <p>Good analysis of the relationship between tax rates and tax revenue. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p>Reasonable evaluation of whether a cut in direct tax rates will always reduce tax reduce, considering both why it might and why it might not.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 2 (6–10 marks) Good knowledge and understanding of direct tax rates.</p> <p>Reasonable analysis of the relationship between tax rates and tax revenue. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant</p>	<p>to accept a low-paid job as net income will rise. Those already employed may be encouraged to work longer hours. A lower tax rate may also reduce tax evasion and may encourage workers and firms from other countries to move to the country.</p> <p>The Laffer curve was first drawn by a US economics professor, Arthur Laffer, on a napkin in a Washington hotel, trying to convince two presidential aides of the benefits of cutting tax rates.</p> <p>Significant cuts in income tax and corporate tax rates were made in the UK and USA in the 1980s and 1990s and some further cuts have been made since. The first decade of the twenty first century also saw the introduction of flat rate tax systems in a number of east European countries.</p> <p>Policy makers, however, have to be cautious about basing their actions on the Laffer curve. This is for a number of reasons. One is that it is a simplification. It assumes a single tax rate at any one time whereas, apart from a flat rate tax system, there are a number of different rates.</p> <p>There are also debates about the shape of the Laffer curve and whether it is possible to determine where the optimum tax rate is.</p> <p>Some studies have indicated that cuts in income tax rates may encourage some workers to work fewer hours. This is because, satisfied with their previous disposable income, they respond to a lower tax rate by taking more leisure.</p> <p>Tax rates are also one of only a number of influences on where workers and firms locate. For instance, a multinational company may be more attracted by a skilled labour force.</p> <p>The Laffer curve supports the view that cutting a high tax rate may increase tax revenue. However, while the</p>
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		<p>diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p>Reasonable evaluation of whether a cut in direct tax rates will always reduce tax revenue, considering both why it might and why it might not.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p>Level 1 (1–5 marks) Reasonable knowledge and understanding of direct tax rates.</p> <p>Limited or no analysis of the relationship between tax rates and tax revenue. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p> <p>Limited evaluation of whether a cut in direct tax rates will always reduce tax revenue in the form of an unsupported statement or no evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p>0 marks No response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>	<p>Laffer curve may suggest there is an optimum tax rate, it is both difficult to determine where this might be and over what range a cut in a tax rate might increase tax revenue.</p> <p>A cut in direct tax rates to zero will obviously reduce tax revenue to zero. A cut in income tax will not be likely to raise tax revenue if workers cannot change the hours they work. It may reduce tax revenue if the increase in net pay results in workers working fewer hours. The income effect may exceed the substitution effect with workers ‘buying’ more leisure time. A lower corporation tax may reduce tax revenue if other countries’ governments cut their tax rates more.</p> <p>A cut in direct tax rates may also reduce tax revenue if it leads to MNCs to set up in other countries. They may think that government spending on, for instance, infrastructure and education, may decrease. Firms may expect profits to be higher in countries where costs are low because of high productivity resulting from a good supply of educated workers.</p> <p>The Laffer curve, however, suggests that a cut in direct tax rates may raise tax revenue. If the rate is currently below the optimum rate, a cut from e.g. B to A will lower tax revenue. If, however, the tax rate is above the optimum rate, however, a cut from e.g. D to C will raise tax revenue.</p>
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			 <p>There are a number of reasons why a cut in direct tax rates may raise tax revenue. One is that it can create an incentive effect. Workers may work longer hours and firms may expand due to a higher financial reward. Lower direct tax rates may reduce tax avoidance and tax evasion. This is because firms will lose less income by not paying tax advisors and by not declaring their earnings.</p> <p>Lower direct rates may also have a 'trickle down effect'. Lower corporation tax may encourage firms to hire more workers and pay higher wages. Such an effect will increase both income and consumer expenditure and so direct and indirect tax revenue may increase.</p> <p>Whether a cut in direct tax rates will reduce tax revenue will depend on how high the rates were originally, the extent of the cut and on how firms and households respond.</p>
		<p>Descriptor</p>	<p>Award mark</p>
		<p>Consistently meets the criteria for this level</p>	<p>At top of level</p>
		<p>Meets the criteria but with some slight inconsistency</p>	<p>Above middle and either below top of level or at middle of level (depending on number of marks available)</p>
		<p>Just enough achievement on balance for this level</p>	<p>Above bottom and either below middle or at middle of level (depending on number of marks available)</p>
		<p>On the borderline of this level and the one below</p>	<p>At bottom of level</p>

Question	Answer	Marks	Guidance
5 *	<p>Microfinance has grown significantly in recent years. There has been a growth in microfinance institutions and microfinance is now available in most developing countries. Evaluate whether microfinance promotes economic development.</p> <p>Level 5 (21–25 marks) Good -Strong knowledge and understanding of microfinance.</p> <p>Strong analysis of how microfinance may affect economic development. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significantly errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p>Strong evaluation of whether microfinance promotes economic development, weighing up both the positive and negative impacts it has had on the UK economy and reaching a supported judgement.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p>Level 4 (16–20 marks) Good knowledge and understanding of microfinance.</p> <p>Strong analysis of how microfinance may affect economic development. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct</p>	<p>25</p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p><i>Indicative content</i></p> <p>Microfinance involves giving small loans to the poor to help them start and develop small businesses that can take them out of poverty. For instance, a loan may be given a woman to buy a sewing machine, enabling her to sell the clothes she produces.</p> <p>A lower rate of interest is charged on the loans than on any money they might be able to borrow from money lenders. The poor are often not able to get loans from traditional banks.</p> <p>Muhammad Yunus is credited with starting microfinance. He founded the Grameen Bank to give loans to reduce poverty and promote economic development.</p> <p>There are various ways that microfinance can reduce poverty and promote economic development. One is that it can increase the income of those who start successful businesses. With higher incomes, the recipients of the loans may be able to enjoy better housing, healthcare and nutrition. If this is the case, their life expectancy is likely to increase. They may now also be able to educate their children. This is because the parents may no longer need their children to work to supplement the families' income and because the families may now be able to afford any school fees. With more education, the children may be able to gain well-paid jobs and enjoy a good standard of living. If the businesses started by the recipients of the loans are successful, they may employ other people in their area. This may reduce unemployment and raise the living standards of their employees.</p> <p>The businesses may buy goods and services from others in the area, thereby increasing employment. In</p>

	<p>with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p>Good evaluation of whether microfinance promotes economic development, weighing up both the positive and negative impacts it has had on the UK economy but without reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p>Level 3 (11–15 marks) Good knowledge and understanding of microfinance.</p> <p>Good analysis of the contribution of how microfinance may affect economic development. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p>Reasonable evaluation of whether microfinance promotes economic development, considering both the positive and negative impacts it has had on the UK economy.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 2 (6–10 marks) Good knowledge and understanding of microfinance.</p> <p>Reasonable analysis of how microfinance may affect economic development. There is correct analysis largely in</p>	<p>addition, any rise in incomes will have a multiplier effect. Those receiving higher incomes will spend more which may benefit local businesses.</p> <p>Microfinance may also promote gender equality. A relatively high proportion of the loans have been given to women. This has not only increased their incomes but has also increased their status and confidence.</p> <p>Some doubts, however, have been raised about the effectiveness of microfinance. It has been pointed out that it may be difficult to start businesses in poor areas because of a lack of demand and because of an absence of some of the factors needed for economic growth and development. For instance, in a poor area there may be no schools for those who live there even if they could afford to.</p> <p>It is also argued that while the interest charged on the loans may be significantly lower than that charged by some money lenders, it may still be relatively high, making the loans difficult to repay. Some economists argue that it would be better to give the poor income grants. These would not have to be repaid.</p> <p>Microfinance is not the most generous form of aid but it does enable more to be helped than in the case of income grants. Its effectiveness can also be increased by providing guidance to the recipients of the loans and by making it be part of a package of promoting development including increasing the provision of education.</p>
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		<p>the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p>Reasonable evaluation of whether microfinance promotes economic development, considering both the positive and negative impacts it has had on the UK economy.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p>Level 1 (1–5 marks) Reasonable knowledge and understanding of microfinance.</p> <p>Limited or no analysis of how microfinance may affect t economic development. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p> <p>Limited evaluation of whether microfinance promotes economic development in the form of an unsupported statement or no evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p>0 marks No response worthy of credit.</p> <p>Note: although a diagram is not required, it may enhance the</p>		
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		quality of the answer and should be rewarded at the appropriate level.		
		Descriptor	Award mark	
		Consistently meets the criteria for this level	At top of level	
		Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	
		Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	
		On the borderline of this level and the one below	At bottom of level	

Assessment Objectives Grid

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1(a)	2				2	
1(b)	1 (1)	3 (3)			4	(4)
1(c)	1 (1)	1 (1)			2	(2)
1(d)		2 (2)			2	(2)
1(e)	1	1	3	3	8	
1(f)	1	1	5	5	12	
2/3	6 (2)	6 (2)	6 (2)	7 (2)	25	(8)
4/5	6	6	6	7	25	
TOTAL	18 (6)	20 (6)	20 (2)	22 (2)	80	(16)

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